

## Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-12 ISO-00 SP-02 USIA-06 AID-05 EB-08

NSC-05 EPG-02 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

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FM AMCONSUL ISTANBUL

TO AMEMBASSY ANKARA

INFO SECSTATE WASHDC 9062

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E.O. 11652: N/A

TAGS: EFIN, TU

SUBJECT: TURKEY'S BALANCE OF PAYMENTS FINANCING

REF: STATE 164398

1. CONGEN SUBMITS FOLLOWING OBSERVATIONS ON QUESTIONS PRESENTED REFTEL, PRIMARILY BASED ON INFO PROVIDED BY U.S. AND LOCAL COMMERCIAL BANKERS. PRIMARY SOURCES OF SOME INFO REQUESTED ARE CENTRAL BANK AND OTHER GOT AGENCIES; THUS WE DO NOT ATTEMPT TO ADDRESS THESE POINTS.

2. PROJECT CREDITS. PRELIMINARY BALANCE OF PAYMENTS STATISTICS FOR JANUARY-APRIL REFLECT PROJECT CREDIT DISBURSALS OF \$172 MILLION, CONSIDERABLY ABOVE 1976 RATE. LINEAR PROJECTION FOR BALANCE OF 1977 WOULD RESULT IN TOTAL OF APPROX \$500 MILLION. PROJECT CREDIT DISBURSALS IN SHORT TERM WILL DEPEND PRIMARILY ON RATE OF IMPLEMENTATION OF PROJECTS IN PIPELINE, HOWEVER, AND NOT ON NEW CREDITS EXTENDED. ALTHOUGH GOT WOULD LIKE TO ACCELERATE INVESTMENT IMPLEMENTATION, REPORTEDLY OPPOSITE IS HAPPENING AS THE GOVERNMENT FINDS IT INCREASINGLY DIFFICULT TO SUPPLY COUNTERPART FUNDS, BOTH FOREIGN AND LOCAL CURRENCY. UNDER LIMITED OFFICIAL USE

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PRESENT CIRCUMSTANCES, 1977 PROJECT CREDIT DISBURSALS WILL LIKELY FALL SHORT OF 1976 LEVEL.

3. SUPPLIER CREDITS IN NORMAL SENSE OF INTEREST-BEARING OBLIGATIONS BY PURCHASER TO EXPORTER DO NOT EXIST IN TURKEY BECAUSE FOREIGN EXCHANGE REGULATIONS PROHIBIT PAYMENT OF INTEREST ABROAD AND REQUIRE CASE-BY-CASE FINANCE MINISTRY APPROVAL OF

FOREIGN CREDITS. SUPPLIERS DO, HOWEVER, FINANCE SALES IN TWO WAYS. THROUGH FIRST QUARTER OF 1977, MANY SUPPLIERS COMMONLY PLACED "CONVERTIBLE LIRA DEPOSITS-CLD'S" IN TURKISH COMMERCIAL BANKS FOR THIS PURPOSE. BY THIS MECHANISM, TURKISH LIRA EQUIVALENT (LESS A RESERVE REQUIREMENT) IS MADE AVAILABLE AS A LOAN FROM THE COMMERCIAL BANK TO THE IMPORTER, WHO USES PROCEEDS TO PURCHASE IMPORTED GOODS. THIS PROCESS DOES NOT INSURE AVAILABILITY OF FOREIGN EXCHANGE FOR THE IMPORT TRANSACTION, HOWEVER, WHICH IS UNIQUELY CONTROLLED BY THE CENTRAL BANK. CLD FLOWS SINCE MAY REPORTEDLY HAVE BEEN NEGATIVE (I.E., THERE HAVE BEEN NET WITHDRAWALS) AND UNDER PRESENT CIRCUMSTANCES SUPPLIER CREDITS IN FORM OF CLD'S ARE UNLIKELY TO BE SIGNIFICANT FOR THE BALANCE OF CURRENT YEAR.

4. SECOND WAY IN WHICH SUPPLIERS FINANCE EXPORTS IS BY SELLING ON CASH AGAINST GOODS OR CASH AGAINST DOCUMENTS BASIS WHEREBY IMPORTER DOES NOT PAY TURKISH LIRA EQUIVALENT FOR COST OF THE GOODS

UNTIL THEY ARE RECEIVED OR SHIPPED. FOLLOWING RECEIPT OF LIRA PAYMENT, CENTRAL BANK "NORMALLY" WOULD TRANSFER FOREIGN EXCHANGE FOR PAYMENT TO SUPPLIER WITH A MINIMUM DELAY OF 30-45 DAYS. THE SUPPLIER, USUALLY AWARE THAT HE WILL RECEIVE DELAYED PAYMENT, IS IN FACT FINANCING THE SALE AND BUILDS COST OF THE ANTICIPATED DELAY INTO HIS INVOICE PRICE. FEW FOREIGN EXCHANGE TRANSFERS HAVE BEEN MADE SINCE FEBRUARY, 1977. THE BACKLOG OF TRANSFERS LIMITED OFFICIAL USE

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PENDING REPORTEDLY EXCEEDS \$1.5 BILLION. THE PROPORTION OF THIS BACKLOG (POSSIBLY MORE THAN HALF) WHICH REPRESENTS GOODS IMPORTED BUT NOT PAID FOR CONSTITUTES CREDIT EXTENDED, VOLUNTARILY OR INVOLUNTARILY, BY FOREIGN SUPPLIERS. MANY SUPPLIERS CONTINUE TO SHIP TO PREFERRED TURKISH CUSTOMERS IN SPITE OF LENGTHENING PAYMENT DELAYS. IMPORTERS, BANKERS, AND SHIPPING COMPANIES CONFIRM, HOWEVER, THAT PHYSICAL IMPORT FLOW IS DECLINING AS MANY EXPORTERS ARE RELUCTANT TO INCREASE THEIR EXPOSURE UNTIL THEY ARE ABLE TO ESTIMATE PERIOD OF PAYMENT DELAY WITH SOME DEGREE OF CERTAINTY.

5. BOTH CLD NET FLOWS AND NET CHANGES IN AMOUNTS OUTSTANDING FOR DELAYED PAYMENT FOR CUSTOMS CLEARED IMPORTS SHOULD BE REFLECTED IN "SHORT TERM CAPITAL MOVEMENTS" IN BALANCE OF PAYMENTS STATISTICS, ALTHOUGH IT IS IMPOSSIBLE TO BREAK OUT EITHER SPECIFIC FIGURE FROM PUBLISHED STATISTICS.

6. TURKISH OFFICIAL GOLD HOLDINGS. TURKEY BORROWED MONEY FROM PRIVATE INTERNATIONAL BANKS USING OFFICIAL GOLD RESERVES AS COLLATERAL IN THE 1950'S AND 1960'S. ALTHOUGH THERE APPARENTLY IS NO IMF REGULATION WHICH WOULD PREVENT TURKEY FROM AGAIN DOING SO, VARIOUS COMMITMENTS DO EXIST WHICH WOULD PRECLUDE THIS.

ACCORDING TO AN INFORMED BANKER, ALL IBRD LOAN AGREEMENTS SPECIFICALLY PREVENT TURKEY FROM PLEDGING GOLD ASSETS. PRESUMBALY WAIVER WAS OBTAINED FROM THE IBRD IN PREVIOUS CASES. THREE PRIVATELY SYNDICATED LOANS SIGNED IN 1975/76 (BOTAS PIPELINE, STATE INVESTMENT BANK, AND PETROL OFISI CREDITS, EACH \$150 MILLION) SPECIFICALLY PREVENT TURKEY FROM MAKING ANY PREFERENTIAL PLEDGE OF ASSETS, INCLUDING GOLD. WAIVERS WOULD HAVE TO BE OBTAINED FROM EVERY CREDITOR, (25 TO 30 BANKS) FOR TURKEY TO ESCAPE THIS OBLIGATION. ACCORDING TO U.S. BANKER WHOSE BANK HAS LARGE EXPOSURE IN TURKEY, OBTAINING SUCH WAIVERS WOULD BE DIFFICULT BUT PROBABALY NOT IMPOSSIBLE, AND HIS BANK FOR ONE WOULD BE RECEPTIVE TO A REQUEST FOR A LOAN AGAINST GOLD RESERVES.

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7. MORGAN GUARANTY ESTIMATE. THE FIGURES FOR UNPAID LETTERS OF CREDIT, OVERDRAFTS, AND "SPECIAL DEPOSIT SCHEMES", PRESUMBALY DIRECT SHORT-TERM LOANS TO CENTRAL BANK, CORRESPOND WITH ESTIMATES OF OTHER INFORMED U.S. BANKDERS. ADDITIONAL FINANCING MAY BE NECESSARY, HOWEVER, TO COVER CONVERTIBLE LIRA ACCOUNT WITHDRAWALS, NOT TO MENTION IMPORT PAYMENT BACKLOG AND CONTINUING IMPORT NEEDS.

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## Message Attributes

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